

ANNUAL REPORT
OF
THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1940

Ending December 28, 1940

ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1940, ENDING DECEMBER 28, 1940

February 7, 1941.

TO THE SHAREHOLDERS:

This report is for Kroger's fiscal year beginning December 31, 1939 and ending December 28, 1940 (52 weeks).

Sales for the fiscal year 1940 (52 weeks) were \$258,115,025 as compared to sales for 1939 (52 weeks) of \$243,356,605, an increase of 6%.

Net income (after provision for Federal taxes on income) for the fiscal year 1940 was \$4,607,126, or \$2.51 per share after preferred dividends as compared to earnings for the fiscal year 1939 of \$5,514,597, or \$3.02 per share after preferred dividends, a decrease of \$0.51 per share.

In spite of an increase in sales there was a decrease in net earnings. This result does not indicate a loss of position or business nor a lowering of the standard in management. Decreased earnings in spite of increased sales resulted chiefly from two causes which were largely beyond your company's control, first, an increase in aggregate wages resulting from provisions of the Wage and Hour Law and the increased number of individuals necessary to handle a larger volume and second, lower gross caused by lower prices, in keeping with the general trend and because of the necessity of maintaining your company's position in the industry and with its customers.

In line with the demands of present day thinking your company has increasingly been conscious of the advisability of sharing profits to a reasonable extent with its personnel. During 1940, there was distributed to certain employees under profit-sharing plans, and to all other employees having one year or more of service, who were not under profit-sharing plans, the aggregate sum of \$787,183, or \$0.43 per share, as compared to the distribution, for like purposes, of an aggregate of \$870,159, or \$0.48 per share, in 1939. These distributions were in addition to the regular weekly payments on sales and gross profit made to store managers and meat masters.

In our report for 1939, we stated that additions were under construction to our Cincinnati General Factory, our Packing House at Columbus, Ohio, and our Bakery at St. Louis. These and other additions, made necessary by the increased demand for products of our own manufacture, have been completed during 1940 at a total cost of \$1,966,627 since these constructions were initiated. Expansion and modernization of our plants are essential if we are to keep step with the rapid developments in the manufacturing and processing of foods. In addition to the above sum for manufacturing expansion, your company has disbursed during 1940 for other permanent improvements and betterments to our stores and other equipment, the sum of \$2,856,177.

At the close of 1940, our employees numbered 22,358, an increase of 3% during the year, as compared to an increase in sales of 6%. Our turnover of personnel in 1940 was the lowest recorded in the history of the company.

During the year the so-called Patman Bill, which would have taxed your company over fifty million dollars a year if enacted, was given a protracted hearing before a Committee of the Lower House of Congress. It is gratifying to record that there appeared in opposition to the passage of this bill hundreds of representatives from farm organizations, manufacturers, landlords, organized labor and consumers. These appearances were largely the result of the Public Relations Programs established by the principal chains in many states and the realization by chains of the importance of public relations. In all of these programs your Public Relations Department has taken a leading part.

The National Defense Commission has frequently called on the personnel of your company for advice, assistance, and in some cases for their exclusive services. These calls have been answered promptly and generously, although at a considerable cost of time and money to your company.

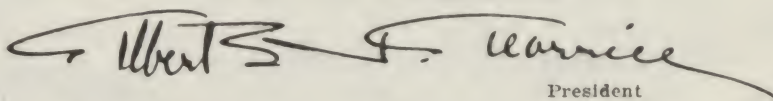
On December 28, 1940, your company had no commitments for the future purchase and sale of commodities which would materially affect its financial position or earnings. The rapidity of our inventory turn-over minimizes the probability of inventory losses.

The "Treasury Shares" shown on the balance sheet in the annual statements for previous years have been combined in this report with shares "held for sale to officers and employees". These shares are being sold to employees under authority of a resolution adopted at annual shareholders' meeting of March 4, 1931.

Comparable financial and operating statistics will be found, in condensed form, on a separate page of this report.

In the opinion of your company's management, our organization and its personnel is abler, more experienced and more loyal than at any time in its history. To its personnel, thanks and appreciation of the management are wholeheartedly extended. The management is confident that the personnel of your company can meet and overcome all or any of the many and new problems with which it may be confronted during 1941.

Respectfully submitted,



Albert B. F. Leavitt

President

CONSOLIDATED BALANCE

ASSETS

Cash on hand and demand deposits.....		\$11,507,754
Notes and accounts receivable, less allowance for losses:		
Customers, including relief agencies.....	\$ 1,272,979	
Employees	12,472	
Vendors and others.....	539,274	1,824,725
Inventories of merchandise, at lower of cost or market.....		23,667,892
Prepaid insurance, rent, taxes, etc.....		613,145
TOTAL CURRENT ASSETS		37,613,516
 Deferred claims receivable, less allowance for losses.....		 20,963
Stocks, bonds, mortgage notes, etc., less allowance for losses.....		53,328
Common stock of company held for sale to officers and employees (16,389 shares) Note 1.....		428,806
FIXED ASSETS:		
Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates, C. G. Richardson, C. E., and the real estate department of the company, as at January 1, 1933, with subsequent additions at cost:		
Land	1,411,620	
Buildings	\$10,258,633	
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions at cost.....	21,172,481	
Automotive equipment, etc., at cost.....	3,928,033	
	35,359,147	
Less, allowance for depreciation and obsolescence	18,947,721	
	16,411,426	17,823,046
Store and general supplies and deferred charges to future operations		833,576
		<u>\$56,773,235</u>

Note 1. At December 28, 1940, certain officers and employees held options to purchase common stock of the company which may be exercised at present on 16,570 shares; at April 2, 1941, on 10,065 shares; and on 1,455 shares at the date of this report.

**TO THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.**

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiary companies (the consolidated balance sheet for the week ending December 28, 1940, and the consolidated statements of income and expenses for the week ending December 28, 1940, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in the United States of America) then ended. In connection therewith, we reviewed the system of internal control and the accounting procedures and other supporting evidence of the companies, by methods and to the extent we deemed appropriate.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and expenses for the week ending December 28, 1940, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in the United States of America, are fairly presented.

Cincinnati, Ohio,
February 4, 1941.

LIABILITIES

Accounts payable, vendors, etc.....	\$ 5,716,814
Accrued expenses, taxes, etc.....	2,421,164
Provision for Federal taxes, current and prior years.....	1,849,263
Dividends payable.....	10,873
TOTAL CURRENT LIABILITIES	9,998,114

Reserve for self-insurance and contingencies.....	434,777
Interest of minority stockholders in net tangible assets of Piggly Wiggly Corporation.....	21,501

CAPITAL

Preferred capital stock authorized and outstanding:

First preferred, 6% par \$100.....	\$50,700	
Second preferred, 7% par \$100.....	46,000	\$ 96,700

Common capital stock without par value, authorized
3,000,000 shares, issued and outstanding

1,848,278 shares. Note 1.....	33,977,568
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Earned surplus, as annexed.....	12,244,575	46,318,843
		<u>\$56,773,235</u>

urchase 36,700 shares of the common stock of the company at \$25 per share. Options
d at April 2, 1942, on 10,065 shares. All options expire not later than October 2, 1942.

companies as at December 28, 1940, and the consolidated statements of income and surplus for the fiscal year (fifty-two
es of the companies and, without making a detailed audit of the transactions, examined or tested accounting records

surplus present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at
th generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS FOR THE FISCAL YEAR (FIFTY-TWO WEEKS) ENDED DECEMBER 28, 1940

Net sales.....	\$258,115,025
Cost of sales, including warehousing and transportation expenses, excluding depreciation	206,947,020
	<u>51,168,005</u>
Operating, general and administrative expenses, excluding depreciation.....	43,250,329
Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes.....	7,917,676
Depreciation	2,562,591
	<u>5,355,085</u>
Net income of subsidiary companies after depreciation of \$23,612, provision for Federal income taxes of \$87,069, and minority stockholders' interest in earnings of subsidiary company of \$1,561.....	351,541
	<u>5,706,626</u>
Income before provision for Federal income taxes.....	5,706,626
Provision for Federal income taxes (no provision made or believed to be required for Federal excess profits tax).....	1,099,500
	<u>4,607,126</u>
NET INCOME.....	4,607,126
Earned surplus, December 31, 1939.....	11,301,772
	<u>15,908,898</u>
Cash dividends paid in the fiscal year ended December 28, 1940:	
First preferred \$6.00 per share.....	\$ 3,042
Second preferred \$7.00 per share.....	3,220
Common \$2.00 per share.....	3,658,061
	<u>3,664,323</u>
Earned surplus, December 28, 1940.....	<u><u>\$ 12,244,575</u></u>

STATEMENT OF CAPITAL SURPLUS FOR THE FISCAL YEAR (FIFTY-TWO WEEKS) ENDED DECEMBER 28, 1940

Balance, December 31, 1939.....	\$ 10,489
Loss from sale of 9,155 shares of The Kroger Grocery & Baking Company common stock \$10,659 less \$170 charged to operations.....	10,489
	<u><u>10,489</u></u>

FINANCIAL AND OPERATING STATISTICS FOR THE FISCAL YEARS 1933 TO 1940, INCLUSIVE

	1933	1934	1935	1936	1937	1938	1939	1940
PROFIT AND DIVIDENDS								
Final Net Profit— Dollars per Share.....	2.51	2.31	2.25	1.91	1.62	2.05	3.02	2.51
—Total Dollars.....	4,546,203	4,198,241	4,110,926	3,487,832	2,950,340	3,741,569	5,514,597	4,607,126
Cash Dividends Paid Per Common Share.....	1.00	1.80	1.60	1.90	1.60	1.90	2.50	2.00
STOCK								
Number Shares Common Stock outstanding with Public—End of Year.....	1,792,366 ²⁰	1,810,293 ²⁰	1,821,989	1,821,989	1,821,989	1,821,989	1,822,734	1,831,889
Number Shareholders—End of Year.....	19,605	20,633	22,537	24,535	26,226	25,983	25,202	25,681
SALES								
Total Sales—Dollars.....	205,691,715	221,175,330	229,907,884	242,273,498	248,444,230	231,295,622	243,356,605	258,115,025
Average Retail Sales— Dollars Per Store Per Week..	861	968	1,018	1,060	1,122	1,091	1,177	1,278
STORES								
In Operation at End of Year:								
Grocery.....	4,400	4,352	4,250	4,212	4,108	3,992	3,958	3,727
Meat.....	2,767	2,748	2,653	2,626	2,482	2,278	2,293	2,200
Average Number Operated Dur- ing Year:								
Grocery.....	4,573	4,356	4,286	4,239	4,169	4,032	3,943	3,846
Meat.....	2,815	2,745	2,694	2,655	2,547	2,339	2,256	2,235
EMPLOYEES								
Number Full-Time Employees at End of Year.....	20,872	22,023	21,611	21,429	21,515	20,498	21,691	22,358
BALANCE SHEET STATISTICS								
Current Ratio.....	4.60	4.35	4.85	4.22	4.63	4.49	4.27	3.76
Cash, U. S. Government and Municipal Securities:								
Dollars.....	9,890,785	9,091,800	10,837,664	9,943,788	12,123,820	14,889,287	13,132,832	11,507,754
Ratio to Current Liabilities..	1.48	1.21	1.57	1.20	1.64	1.87	1.52	1.15
Inventories—Dollars.....	18,627,029	20,916,910	20,129,097	22,692,864	19,985,345	18,851,393	21,566,958	23,667,892
Fixed Assets in Percent of Total Assets.....	29	28	28	27	27	25	30	31
Net Working Capital—Dollars..	24,138,697	25,202,194	26,550,609	26,734,286	26,878,892	27,801,102	28,227,897	27,615,402

The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

JOHN H. SADLER,
Secretary and Assistant Treasurer

JOSEPH BAPPERT, *Vice-President*

F. M. GRIEME, *Assistant Treasurer*

WILLIAM L. CAMPBELL, *Vice-President*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati
President, The Mabley and Carew Co.

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

JOSEPH BAPPERT,
*Vice-President and General Manager,
Retail Division, The Kroger Grocery & Baking
Company*

CARL M. JACOBS, Cincinnati
Member, Frost & Jacobs

WILLIAM L. CAMPBELL,
*Vice-President and General Manager
Manufacturing Division, The Kroger Grocery and
Baking Company*

A. T. KEARNEY, Chicago
McKinsey, Kearney & Co.

WALTER A. DRAPER, Cincinnati
President, The Cincinnati Street Railway Company

CHESTER F. KROGER, Cincinnati
Capitalist

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

ALBERT H. MORRILL, Cincinnati
*President, The Kroger Grocery & Baking Company;
Piggly Wiggly Corporation*

HARRY J. GILLIGAN, Cincinnati
John J. Gilligan & Son

CHARLES M. ROBERTSON, Cincinnati
*Vice-President and Treasurer,
The Kroger Grocery & Baking Company*

JOHN H. SADLER, Cincinnati
*Secretary and Ass't Treasurer,
The Kroger Grocery & Baking Company*

PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Frost & Jacobs

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York